

# VALUEVISION MEDIA INC

## FORM 10-Q (Quarterly Report)

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Address	6740 SHADY OAK RD MINNEAPOLIS, Minnesota 55344-3433
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Industry	Retail (Catalog & Mail Order)
Sector	Services
Fiscal Year	01/31

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**  
**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended April 30, 1996

*Commission File Number 0-20243*

**VALUEVISION INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

Minnesota  
(State or other jurisdiction of  
incorporation or organization)

41-1673770  
(I.R.S. Employer  
Identification No.)

6740 Shady Oak Road, Minneapolis, MN 55344  
(Address of principal executive offices)

612-947-5200  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

As of June 12, 1996, there were 29,376,748 shares of the Registrant's Common Stock, \$.01 par value, outstanding.

**VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES**

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**APRIL 30, 1996**

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Part I. Financial Information

Item 1. Financial Statements

**VALUEVISION INTERNATIONAL, INC.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)**

ASSETS	APRIL 30, 1996	JANUARY 31, 1996
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 28,810,615	\$ 20,063,901
Short-term investments	51,509,745	26,387,426
Accounts receivable, net	6,231,441	5,130,502
Inventories	9,536,983	8,889,426
Prepaid expenses and other	4,669,580	4,882,453
Deferred taxes	250,000	250,000
	-----	-----
Total current assets	101,008,364	65,603,708
PROPERTY AND EQUIPMENT, NET	10,838,140	13,813,347
FEDERAL COMMUNICATIONS COMMISSION LICENSES, NET	7,158,440	9,312,437
MONTGOMERY WARD OPERATING AGREEMENT AND LICENSES, NET	16,171,897	16,621,255
INVESTMENTS AND OTHER ASSETS, NET	11,792,466	11,918,470
	-----	-----
	\$ 146,969,307	\$ 117,269,217
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term obligations	\$ 200,000	\$ 200,000
Accounts payable	10,246,598	8,770,685
Accrued liabilities	4,886,116	4,197,963
Income taxes payable	10,882,000	350,000
	-----	-----
Total current liabilities	26,214,714	13,518,648
LONG-TERM OBLIGATIONS	305,745	447,430
	-----	-----
Total liabilities	26,520,459	13,966,078
	-----	-----
SHAREHOLDERS' EQUITY:		
Common stock, \$.01 par value, 100,000,000 shares authorized; 29,374,248 and 29,343,748 shares issued and outstanding	293,742	293,437
Montgomery Ward common stock purchase warrants; 25,799,860 and 25,770,461	17,500,000	17,500,000
Additional paid-in capital	87,267,760	87,189,939
Net unrealized holding gain (loss) on investments available-for-sale	429,403	(184,770)
Retained earnings (deficit)	14,957,943	(1,495,467)
	-----	-----
Total shareholders' equity	120,448,848	103,303,139
	-----	-----
	\$ 146,969,307	\$ 117,269,217
	=====	=====

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

**VALUEVISION INTERNATIONAL, INC.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)**

**FOR THE THREE MONTHS ENDED  
APRIL 30,**

NET SALES	\$ 22,787,667	\$ 19,258,939
COST OF SALES	13,399,331	11,279,703
Gross profit	9,388,336	7,979,236
Margin	41.2%	41.4%
OPERATING EXPENSES:		
Distribution and selling	7,403,954	6,288,751
General and administrative	1,308,506	924,444
Depreciation and amortization	1,358,717	913,998
Total operating expenses	10,071,177	8,127,193
OPERATING LOSS	(682,841)	(147,957)
OTHER INCOME (EXPENSE):		
Gain on sale of broadcast stations	27,050,000	--
Litigation costs	--	(51,000)
Interest income	1,076,866	436,567
Other, net	(40,615)	(19,868)
Total other income	28,086,251	365,699
INCOME BEFORE INCOME TAXES	27,403,410	217,742
INCOME TAX PROVISION	10,950,000	--
NET INCOME	\$ 16,453,410	\$ 217,742
NET INCOME PER COMMON AND DILUTIVE COMMON EQUIVALENT SHARE	\$ 0.54	\$ 0.01
Weighted average number of common shares and common equivalent shares outstanding	30,416,427	27,991,875

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

**VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
**FOR THE THREE MONTHS ENDED APRIL 30, 1996**

	COMMON STOCK		MONTGOMERY WARD COMMON STOCK PURCHASE WARRANTS	ADDITIONAL PAID-IN CAPITAL	NET UNREALIZED HOLDING GAIN (LOSS) ON INVESTMENTS AVAILABLE- FOR-SALE	RETAINED EARNINGS (DEFICIT)	TOTAL SHAREHOLDERS' EQUITY
	NUMBER OF SHARES	PAR VALUE					
BALANCE, JANUARY 31, 1996	29,343,748	\$ 293,437	\$17,500,000	\$ 87,189,939	\$ (184,770)	\$ (1,495,467)	\$103,303,139
Exercise of stock options	30,500	305	--	77,821	--	--	78,126
Unrealized holding gain on investments available-for-sale	--	--	--	--	614,173	--	614,173
Net income	--	--	--	--	--	16,453,410	16,453,410
BALANCE, APRIL 30, 1996	29,374,248	\$ 293,742	\$17,500,000	\$ 87,267,760	\$ 429,403	\$ 14,957,943	\$120,448,848

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

**VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

FOR THE THREE MONTHS ENDED APRIL 30,

1996                      1995

OPERATING ACTIVITIES:

Net income	\$ 16,453,410	\$ 217,742
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	1,358,717	913,998
Gain on sale of broadcast stations	(27,050,000)	--
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,100,939)	(1,166,384)
Inventories	(647,557)	(2,053,012)
Prepaid expenses and other	212,252	(120,938)
Accounts payable and accrued liabilities	2,033,359	2,883,078
Income taxes payable	10,532,000	--
	-----	-----
Net cash provided by operating activities	1,791,242	674,484
	-----	-----
INVESTING ACTIVITIES:		
Property and equipment additions, net of retirements	(993,265)	(313,228)
Purchase of broadcast station, including acquisition costs	(4,618,743)	--
Proceeds from sale of broadcast stations	40,000,000	--
Purchase of short-term investments	(47,610,783)	(11,770,156)
Proceeds from sale of short-term investments	22,488,464	1,181,589
Payment for investments and other assets	(1,998,340)	(80,737)
Payments of cable launch fees	(569,015)	--
Proceeds from escrow deposits and claims	320,713	200,000
	-----	-----
Net cash provided by (used for) investing activities	7,019,031	(10,782,532)
	-----	-----
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	78,126	37,969
Payment of offering costs	--	(65,210)
Payment of long-term obligations	(141,685)	(130,500)
	-----	-----
Net cash used for financing activities	(63,559)	(157,741)
	-----	-----
Net increase (decrease) in cash and cash equivalents	8,746,714	(10,265,789)
BEGINNING CASH AND CASH EQUIVALENTS	20,063,901	21,655,954
	-----	-----
ENDING CASH AND CASH EQUIVALENTS	\$ 28,810,615	\$ 11,390,165
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 58,315	\$ 69,500
	=====	=====
Income taxes paid	\$ 418,000	\$ --
	=====	=====
SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of non-compete obligations	\$ --	\$ --
	=====	=====

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

## VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 1996 (UNAUDITED)

#### (1) GENERAL

ValueVision International, Inc. ("the Company") is a television home shopping network which uses recognized on-air television home shopping personalities to market brand name merchandise and proprietary and private label consumer products at competitive or discount prices. The Company's 24-hour per day television home shopping programming is distributed primarily through long-term cable affiliation agreements and the purchase of month-to-month full- and part-time block lease agreements of cable and broadcast television time. In addition, the Company distributes its programming through Company owned or affiliated full-power broadcast television stations, low-power television (LPTV) stations and to satellite dish owners.

#### (2) BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements

prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The information furnished in the interim condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim condensed consolidated financial statements be read in conjunction with the Company's most recent audited financial statements and notes thereto included in its fiscal 1996 Annual Report on Form 10-K/A1. Operating results for the three month period ended April 30, 1996, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 1997.

Certain amounts in the fiscal 1996 financial statements have been reclassified to conform to the fiscal 1997 presentation with no impact on previously reported net income or shareholders' equity.

### (3) NET INCOME PER SHARE

The Company computes primary net income per share based on the weighted average number of shares of common stock and dilutive common stock equivalents outstanding during the period. The difference between primary and fully diluted net income per share and weighted average number of shares outstanding was not material and therefore not presented separately.

### (4) SALE OF BROADCAST STATIONS

On February 28, 1996, the Company completed the sale of two broadcast stations to Paxson Communications Corporation for \$40.0 million cash plus the assumption of certain obligations. The stations sold were ABC affiliate WAKC-TV, Channel 23, licensed to Akron, Ohio, and independent station WHAI-TV, Channel 43, licensed to Bridgeport, Connecticut. WAKC-TV was acquired by the Company in April 1994 for approximately \$6.0 million and WHAI-TV was acquired by the Company in December 1994 for approximately \$7.3 million. The net gain on the sale of these two broadcast television stations of approximately \$27.0 million was recognized in the quarter ended April 30, 1996.

### (5) ACQUISITION OF SEATTLE-TACOMA, WASHINGTON, STATION

On March 15, 1996, the Company completed the acquisition of independent television station KBGE (TV), Channel 33, serving the Seattle-Tacoma, Washington market, for approximately \$4.7 million including the assumption of certain debt and acquisition related costs. This acquisition was completed in accordance with the terms of a five-year programming affiliation and financing agreement with the station which was signed on July 21, 1995. Pursuant to this agreement, the Company provided financing of up to \$1,450,000 pursuant to a working capital loan for channel operations.

### (6) SECOND CLOSING, WVVI-MANASSAS, VIRGINIA STATION

On April 11, 1996, the Company completed a second closing with respect to its acquisition of independent television station WVVI (TV), Channel 66, serving the Washington, D.C. market whereby the Company paid \$800,000 to the former owner of WVVI (TV) as a final payment in exchange for not having to pay \$1,600,000 in the event the "must carry" provisions of the Cable Act are upheld by a final decision. The Company had previously paid \$4,050,000 to National Capital Christian Broadcasting, WVVI's former owners, at an initial closing on March 28, 1994. The \$800,000 additional payment has been classified as excess purchase price and is being amortized over 25 years on a straight-line basis. In addition, the Company received certain studio and production equipment from the former owner of WVVI, in lieu of a cash payment, for the balance outstanding under a secured convertible debenture in the face amount of \$450,000.

### (7) INCOME TAXES

As of January 31, 1996, the Company had net operating loss carryforwards of approximately \$1.8 million for income tax reporting purposes. These carryforwards were fully realized during the quarter ended April 30, 1996 as an offset to taxable income.

### (8) SUBSEQUENT EVENT

On June 7, 1996, the Company signed a non-binding Memorandum of Understanding ("MOU") with Montgomery Ward & Co., Incorporated ("Montgomery Ward"), pursuant to which the companies agreed to expand and restructure their ongoing operating and license agreements. In addition, the Company agreed to acquire Montgomery Ward Direct, a four year old catalog business. The transaction is subject to certain conditions, including completion of definitive agreements and due diligence. Pursuant to the provisions of the MOU, the Company's sales promotion rights will be expanded beyond television home shopping to include the full use of the service marks of Montgomery Ward for direct mail catalogs and ancillary promotions. The strategic alliance between the Companies will be restructured and amended such that (i) 18,000,000 unvested warrants held by Montgomery Ward will be cancelled, (ii) Montgomery Ward would commit to providing \$20.0 million in supplemental advertising support, (iii) the Montgomery Ward operating and license agreements would be amended and expanded, as defined in the MOU, and be extended to May 31, 2008, (iv) the Company will acquire all of the assets and assume certain obligations of Montgomery Ward Direct, and (v) the Company will issue to Montgomery Ward warrants to purchase approximately 3.2 million shares of the Company's common stock at an exercise price of \$.01 per share.

## Item 2.

# VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### INTRODUCTION

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Company's accompanying unaudited condensed consolidated financial statements and notes thereto included elsewhere herein and the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K/A1 for the fiscal year ended January 31, 1996.

### SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA

#### DOLLAR AMOUNTS AS A PERCENTAGE OF NET SALES FOR THE THREE MONTHS ENDED APRIL 30,

	1996	1995
	-----	-----
NET SALES	100.0%	100.0%
	=====	=====
GROSS MARGIN	41.2%	41.4%
	-----	-----
OPERATING EXPENSES:		
Distribution and selling	32.5%	32.7%
General and administrative	5.7%	4.8%
Depreciation and amortization	6.0%	4.7%
	-----	-----
Total operating expense	44.2%	42.2%
	-----	-----
OPERATING LOSS	(3.0%)	(.8%)
	=====	=====

## VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### RESULTS OF OPERATIONS

#### PROGRAM DISTRIBUTION

The Company's programming was available to approximately 13.9 million cable homes as of April 30, 1996, as compared to 13.6 million cable homes as of January 31, 1996 and to 13.3 million cable homes as of April 30, 1995. The Company's programming is currently available through affiliation and time-block purchase agreements with approximately 250 cable systems and through three wholly owned full-power television broadcast stations. In addition, the Company's programming is broadcast full-time over nine owned or affiliated low-power television stations in major markets, and is available unscrambled to homes equipped with satellite dishes. As of April 30, 1996 and 1995, the Company's programming was available to approximately 10.7 million and 9.0 million full-time equivalent cable homes ("FTE"), respectively, an approximate 18% increase. As of January 31, 1996, the Company's programming was available to 10.5 million FTE cable homes. Approximately 7.3 million and 5.6 million cable homes at April 30, 1996 and 1995, respectively, received the Company's programming on a full-time basis. Homes that receive the Company's programming 24 hours per day are counted as one FTE each and homes that receive the Company's television home shopping programming for any period less than 24 hours are counted based upon an analysis of time-of day and day-of week.

#### NET SALES

Net sales for the three months ended April 30, 1996 (fiscal 1997), were \$22,788,000 compared to net sales of \$19,259,000 for the three months ended April 30, 1995 (fiscal 1996), an 18% increase. The increase in net sales is primarily attributed to the increase in full-time equivalent cable homes able to receive the Company's programming which increased approximately 1.7 million or approximately 18% from 9.0 million at April 30, 1995 to 10.7 million at April 30, 1996. During the 12-month period ended April 30, 1996 the Company added approximately 1.7 million full time cable homes. In addition to new homes, sales increased due to the continued addition of new customers from households already receiving the Company's television home shopping programming offset by a slight decline in repeat sales to existing customers. The slight decline in repeat sales to existing customers experienced during the first quarter of fiscal 1997 was due, in part, to the effects of continued testing of certain merchandising and programming strategies. Certain changes were made to the Company's merchandising and

programming strategies in late March and April 1996 which resulted in an improvement in sales for April 1996 as compared to April 1995. The Company intends to continue to test and change its merchandising and programming strategies with the intent of improving sales results; however, while the Company is optimistic that results will continue to improve, there can be no assurance that such changes in strategy will achieve intended results. As a result of the increased number of households able to receive the Company's programming, as well as seasonality factors, the Company anticipates net sales and operating expenses to continue to increase for the balance of fiscal 1997.

### **GROSS MARGINS**

Gross profit margins for the three months ended April 30, 1996 were 41.2%, compared with 41.4%, for the same period last year. The gross margins between comparable periods remained relatively consistent, primarily as a result of an increase in gross margin percentages in the jewelry and seasonal product categories and a greater proportion of higher margin nonjewelry products such as giftware and houseware products, offset by a decline in volume of higher margin jewelry products. During the first quarter of fiscal 1997 the Company continued to broaden its merchandise mix as compared to the same period last year by expanding the range and quantity of nonjewelry items. As part of the ongoing shift in merchandise mix, the Company continued to devote increasing program air time to nonjewelry merchandise. Jewelry accounted for 70% of air time during the first quarter of fiscal 1997, compared with 72% for the same period last year.

### **OPERATING EXPENSES**

Total operating expenses for the three months ended April 30, 1996 were \$10,071,000 versus \$8,127,000 for the comparable prior year period, a 23.9% increase. Distribution and selling expenses for the first quarter of fiscal 1997 increased approximately \$1,115,000 or 17.7%, to \$7,404,000 or 32.5% of net sales compared to \$6,289,000, or 32.7% of net sales for the comparable period of fiscal 1996. Distribution and selling costs increased primarily due to increases in cable access fees, resulting from the growth in the number of cable homes receiving the company's programming, additional personnel costs associated with increased staffing levels and additional costs associated with handling increased sales volume.

General and administrative expenses for the first quarter of fiscal 1997 increased \$385,000 to \$1,309,000 or 5.7% of net sales, compared to \$924,000 or 4.8% of net sales for the comparable period of fiscal 1996. General and administrative costs rose as a result of additional personnel required to support the Company's expanding operations, increased costs associated with operating broadcast television station WAKC-TV, Akron, Ohio prior to its sale as compared to the same period last year and additional legal costs incurred relative to the Company's clarification of certain cable regulations.

Depreciation and amortization costs were \$1,359,000 and \$914,000 for the three months ended April 30, 1996 and 1995, respectively, representing an increase of \$445,000 or 48.7% from fiscal 1996 to fiscal 1997. Depreciation and amortization costs as a percentage of net sales were 6.0% for the first quarter of fiscal 1997 as compared to 4.7% for the first quarter of fiscal 1996. The increase in depreciation and amortization is primarily due to amortization of the Montgomery Ward operating agreement and licenses entered into in August 1995 of \$450,000 and amortization of prepaid cable launch fees, offset by the elimination of depreciation and amortization associated with WAKC and WHAI which were sold in February 1996.

### **OPERATING LOSS**

For the three months ended April 30, 1996, the Company incurred an operating loss of \$683,000, compared to an operating loss of \$148,000, for the three months ended April 30, 1995. The increase in the operating loss for the first quarter of fiscal 1997 resulted primarily from a rise in operating costs due to expanded operations offset by increased sales volumes and a corresponding increase in gross profits.

### **NET INCOME**

For the three months ended April 30, 1996, net income was \$16,453,000 or \$0.54 per share on 30,416,000 weighted average common and common equivalent shares outstanding compared with net income of \$218,000, or \$.01 per share on 27,992,000 weighted average shares outstanding, for the prior-year period. Results for the first quarter of fiscal 1997 include a gain of \$27,050,000 from the sale of television stations WAKC and WHAI in February 1996. Excluding the gain on the sale of the two television stations, the Company had net income of \$223,000, or \$.01 per share, for the first quarter ended April 30, 1996. Net income also reflects a tax provision of \$10,950,000, which results in an effective tax rate of 40%.

### **FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

As of April 30, 1996, cash and cash equivalents and short-term investments were \$80,320,000, compared to \$46,451,000 as of January 31, 1996, a \$33,869,000 increase. For the three months ended April 30, 1996 working capital increased \$22,709,000 to \$74,794,000. The current ratio was 3.9 at April 30, 1996 compared to 4.9 at January 31, 1996. At April 30, 1996 all short-term investments and cash equivalents were invested in debt securities with original maturity dates of less than two hundred and seventy (270) days.

Total assets at April 30, 1996 were \$146,969,000, compared to \$117,269,000 at January 31, 1996. Shareholders' equity was \$120,449,000 at April 30, 1996, compared to \$103,303,000 at January 31, 1996, a \$17,146,000 increase. The increase in shareholders' equity resulted from the first quarter net income of \$16,453,000, an unrealized holding gain on investments available-for-sale of \$614,000 and proceeds received on the exercise of stock options.



For the three months ended April 30, 1996 and 1995 net cash provided by operating activities totaled \$1,791,000 and \$674,000, respectively. Cash flows from operations before consideration of changes in working capital items and investing and financing activities was a positive \$676,000 for the quarter ended April 30, 1996, compared to a positive \$766,000 for the same prior-year period. Net cash provided by operating activities for the first quarter of fiscal 1997 was the result of net income and the related depreciation and amortization and gain on sale of broadcast stations adjustments and increased accounts payable, income taxes payable and accrued liabilities offset by funding required to support higher levels of accounts receivables and inventory. Accounts receivable primarily increased due to timing relative to receipt of funds from credit card companies and increased sales volume. Inventories increased from year end to support increased sales volume and changes in merchandise mix.

Net cash provided by investing activities totaled \$7,019,000 for the first quarter of fiscal 1997 compared to net cash used of \$10,783,000 for the first quarter of fiscal 1996. For the three months ended April 30, 1996 and 1995, expenditures for property and equipment were \$993,000 and \$313,000, respectively. Expenditures for property and equipment during the quarters ended April 30, 1996 and 1995 include (i) the upgrade of broadcast station and production equipment, studios and transmission equipment and (ii) the upgrade of computer software and related equipment. Principal future capital expenditures will be for upgrading television production and transmission equipment, studio expansions and order fulfillment equipment in support of expanded operations. During the first quarter of fiscal 1997, the Company received \$40 million in proceeds from the sale of two television stations; Akron ABC affiliate WAKC-TV and independent station WHAI-TV. In addition, during the quarter ended April 30, 1996 the Company paid approximately \$3.8 million toward the acquisition of independent television station KBGE (TV), including acquisition related costs and paid \$800,000 at the second closing relative to broadcast station WVVI (TV).

Net cash used for financing activities totaled \$64,000 and \$158,000 for the quarters ended April 30, 1996 and 1995 respectively, which is primarily related to installment payments made under a five year noncompete obligation entered into upon the acquisition of a broadcast television station partially offset by proceeds received from the exercise of stock options.

Management believes funds currently held by the Company will be sufficient to fund the Company's operations, Company common stock repurchased, if any, pursuant to an authorized repurchase plan, and anticipated capital expenditures and cable launch fees through fiscal 1997. Additional capital may be required in the event the Company is able to identify television stations in strategic markets at favorable prices and determines to acquire up to the maximum of 12 full power television stations it may own under current regulations.

## **FORWARD-LOOKING INFORMATION**

Forward-looking statements contained herein are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. There are certain important factors that could cause results to differ materially from those anticipated by some of the statements made herein. Investors are cautioned that all forward-looking statements involve risks and uncertainty. The factors, among others, that could cause actual results to differ materially include: consumer spending and debt levels, interest rates, continuity of relationships with or purchase from major vendors, product mix, competitive pressure on sales and pricing, and increases in cable access fees and other costs which cannot be recovered through improved pricing.

## **VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES**

### **Part II. Other Information**

#### **Item 5. Other Information**

The Registrant's Press Release dated June 10, 1996, which is filed as Exhibit 99 to this Form 10-Q.

#### **Item 6. Exhibits and Reports on Form 8-K**

##### (a) Exhibits

11 Computation of Net Income Per Share

99 Press Release dated June 10, 1996

##### (b) Reports on Form 8-K

None

## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**VALUEVISION INTERNATIONAL, INC.**

Robert L. Johander  
Chairman of the Board and  
Chief Executive Officer  
(Principal Executive Officer)

Stuart R. Romenesko  
Vice President Finance and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

Date: June 14, 1996

**FOR IMMEDIATE RELEASE**  
**Monday, June 10, 1996**

**VALUEVISION TO ACQUIRE MONTGOMERY WARD DIRECT  
CATALOG BUSINESS, ADDITIONAL DIRECT MARKETING RIGHTS**

**STRUCTURE OF EQUITY AGREEMENT BETWEEN COMPANIES SIMPLIFIED;  
FUTURE VALUEVISION DILUTION REDUCED**

MINNEAPOLIS, MN, June 10, 1996 . . . ValueVision International, Inc. (NASDAQ:VVTV) and Montgomery Ward & Co., Incorporated today announced an expansion and restructuring of their ongoing marketing agreement as well as ValueVision's acquisition of Montgomery Ward Direct, a four-year-old catalog business.

The direct mail business is expected to add in the range of \$50 to \$70 million in annualized sales to ValueVision's revenues. Under the non-binding Memorandum of Understanding, ValueVision will significantly simplify its equity structure.

The transaction is subject to the completion of definitive agreements and due diligence, with consolidation of the Montgomery Ward Direct business in ValueVision's operations expected to begin immediately thereafter.

**VALUEVISION/MONTGOMERY WARD PROMOTION PLANS EXPANDED**

ValueVision's sale promotion rights will be expanded beyond the current television home shopping arena to include the full use of the service mark of Montgomery Ward, and its 10-million- plus active credit card file for direct mail catalogs and ancillary promotions. The new agreement also extends to the Lechmere service mark and customer file acquired by Montgomery Ward in 1994, when it purchased the billion sales New England-based electronics and appliance retailer.

Among the tools available for use by ValueVision in building the Montgomery Ward Direct business will be the use of combination catalog and pre-approved credit offers, and solo and multisolo mailings to third-party lists under the Montgomery Ward Direct name.

ValueVision will own 100% of Montgomery Ward Direct and will be responsible for all aspects of business. With certain exceptions, the agreement involves no additional royalties or fees for a minimum five years, or for the twelve-year term of the licensing agreement, as long as Montgomery Ward holds at least 5% of ValueVision's outstanding equity.

ValueVision will be advised in the strategic direction of Montgomery Ward Direct and its related direct marketing business by Domini Mangone, formerly an executive officer of Montgomery Ward & Co., Incorporated. Mr. Mangone currently serves as Chief Executive Officer of Merchant Partners. Merchant Partners will also provide strategic and financial consulting to ValueVision.

**AD SUPPORT PROGRAM FINE-TUNED**

The new agreement provides ValueVision's cable affiliates a guaranteed \$20 million in a supplemental ad support program over five years from the Montgomery Ward TV ad budget, intended to assist ValueVision's affiliate relations department to build program distribution of its TV home shopping network through participating cable systems.

**EQUITY AGREEMENT RESTRUCTURED TO LIMIT DILUTION**

ValueVision will issue to Montgomery Ward warrants to purchase approximately 3.2 million shares of ValueVision common stock at an exercise price of \$0.01 per share. The new warrants will replace the approximately 18,000,000 unvested warrants from an earlier grant of 25,000,000 ValueVision warrants exercisable at prices ranging from \$7.00 - \$17.00. The transaction involves no cash, although ValueVision will receive Montgomery Ward Direct's assets, including cash and inventories, and will assume certain liabilities.

The earlier warrant program had been subject to certain vesting conditions and termination rights which do not apply to the replacement grant. Under the new agreements, Montgomery Ward's potential ownership of ValueVision, on a fully diluted basis following the exercise of all warrants, would be 26%.

"We're pleased to have earned the support of Montgomery Ward as we establish Montgomery Ward Direct as the first component of ValueVision's direct marketing operations," said Robert L. Johander, Chairman and CEO of ValueVision International, Inc. "This new division offers tremendous growth opportunities and proven synergies with our current television home shopping operations."

"The infrastructure requirements to efficiently operate the Montgomery Ward Direct business are an ideal fit with the systems we've built for ValueVision. Moreover, we're delighted that Montgomery Ward Direct comes with a staff of intensely loyal and knowledgeable people who can make ValueVision's entry into the direct mail and related print merchandising business a solid growth vehicle," concluded Johander.

"Montgomery Ward Direct has had significant growth under our joint venture with Fingerhut," said Bernard F. Brennan, Chairman and CEO of Montgomery Ward & Co. "However, this new agreement provides us the opportunity to combine the synergistic strengths of Montgomery Ward Direct with those of ValueVision."

ValueVision International, Inc. is the third largest television home shopping retailer in the United States. The company's 24-hour per day programming is currently available to approximately 13.6 million cable homes. Approximately 7.4 million cable homes receive ValueVision's programming on a full-time basis.

For additional information on ValueVision, International, Inc. by FAX, No cost, Dial 1-800- PRO-INFO, code #158.

Exhibit 11

VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES

COMPUTATION OF NET INCOME PER SHARE

	Three Months Ended April 30,	
	1996	1995
Net income	\$16,453,410	\$ 217,742
	=====	=====
Weighted average number of common shares outstanding	29,352,137	27,991,875
Shares assumed to be issued upon the exercise of common stock options and warrants under the treasury stock method	1,064,290	--
	-----	-----
Weighted average number of common shares and common equivalent shares outstanding	30,416,427	27,991,875
	=====	=====
Net income per common and dilutive common equivalent shares	\$ 0.54	\$ 0.01
	=====	=====

## ARTICLE 5

PERIOD TYPE	3 MOS
FISCAL YEAR END	JAN 31 1997
PERIOD END	APR 30 1996
CASH	28,810,615
SECURITIES	51,509,745
RECEIVABLES	6,231,441
ALLOWANCES	0
INVENTORY	9,536,983
CURRENT ASSETS	101,008,364
PP&E	10,888,140
DEPRECIATION	0
TOTAL ASSETS	146,969,307
CURRENT LIABILITIES	26,214,714
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	293,742
OTHER SE	120,155,106
TOTAL LIABILITY AND EQUITY	146,969,307
SALES	22,787,667
TOTAL REVENUES	22,787,667
CGS	13,399,331
TOTAL COSTS	10,071,177
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	40,615
INCOME PRETAX	27,403,410
INCOME TAX	10,950,000
INCOME CONTINUING	16,455,410
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	16,453,410
EPS PRIMARY	.54
EPS DILUTED	.54

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